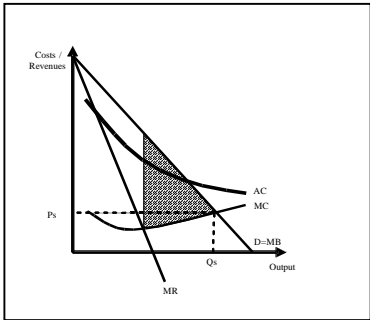
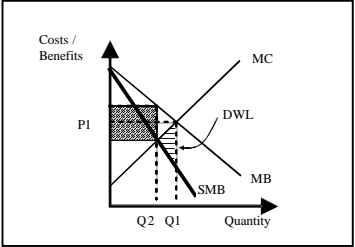
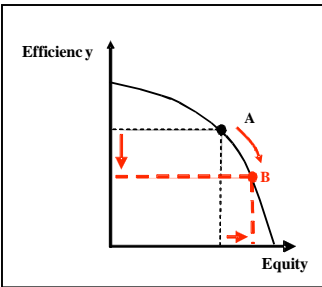


**Assessment Schedule – 2006****Economics: Describe market failure and government interventions to correct for market failure (90631)****Evidence Statement**

Code	Q	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	One (a)	 <p>AC slopes downwards within the range of demand. Note: If AC cuts MC, AC must start to rise.</p>	AC correctly drawn and labelled.		
A1	(b) (i) (ii)	$Q_s$ and $P_s$ are located corresponding to the intersection of MB and MC curves.	BOTH correctly identified		
A2	(c)	Idea of (eg): <ul style="list-style-type: none"> <li>Set price = MC and (offer a subsidy as the monopoly would be making a sub-normal profit).</li> <li>Regulate to <math>P=MC</math></li> <li>Nationalise</li> <li>Govt could regulate to produce <math>Q_s</math> at <math>P_s</math> or produce at <math>Q_s</math></li> </ul>	Correctly describes ONE policy		
A1	(d) (i)	See shaded area in graph above	Correctly shaded area		
A1 or M1	(d) (ii)	Because <ul style="list-style-type: none"> <li>At the profit-maximising output <math>MB &gt; MC</math> so will expand output to <math>Q_s</math></li> <li>At <math>Q_s</math>, <math>(S)MB = (S)MC</math> and total surpluses are maximised, so it is the most socially desirable output level.</li> <li><math>P &gt; MC</math></li> <li>Have DWL's</li> <li>At <math>Q_{max}</math> CS and PS are not maximised</li> <li>The good is over priced.</li> <li>The good is underproduced</li> <li>Firm is making super profits</li> <li>Producing less than consumers/society wish.</li> <li>Not where <math>D=S</math></li> </ul>	Describes ONE key point	Explanation includes two or more points.	

Code	Q	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A1	<b>Two</b> (a)	Negative externality of consumption	Correctly identifies externality		
A2	(b)	Gives the holder permission to use or sell fresh water.	Correct description		
A1 or M1	(c)	Ideas of: <ul style="list-style-type: none"> <li>Water is being overused/consumed, treated as a free good/causing externalities</li> <li>consumers unconcerned about conserving water/ consumption is not sustainable/ water rights internalize the externality.</li> </ul>	Describes ONE key point	Explanation includes BOTH points	
A1	<b>Three</b> (a)	A demerit good is one that the government (society) considers to be bad for consumers (NOT a good that has negative spillover effects).	Correct definition		
A1	(b)	Examples will show the impact on third parties, eg: <ul style="list-style-type: none"> <li>killing someone while driving drunk</li> <li>disturbing neighbours with rowdy behaviour.</li> <li>Crime</li> <li>Work accidents</li> <li>Foetal alcohol syndrome</li> <li>Effect on productivity</li> </ul>	Any TWO correct examples		
A1	(c)	 <p>SMB/MSB drawn to the left of MB DO NOT ACCEPT MB2 or MB'</p>	SMB/MSB correctly drawn and labelled, and Q2 correctly identified		
A1 or M1	(d)	Because: <ul style="list-style-type: none"> <li>Alcohol is over-consumed (not produced)</li> <li>Alcohol is underpriced</li> <li>There are DWL's</li> <li>Negative spillovers are not taken into account</li> <li>Social preferences are not recognised.</li> <li>MSB≠MSC</li> </ul>	Describes ONE key point	Explanation includes two or more points.	
A2*	(e) (i)	Idea of <ul style="list-style-type: none"> <li>D/MB would shift to the left</li> <li>Fall in Demand</li> <li>Price and Quantity fall/decrease.</li> </ul>	Correct description		

Code	Q	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
M2*	<b>Three</b> (e) (ii)	Ideas of (eg): <ul style="list-style-type: none"> <li>In this case the proposed policy assumes 18–20-year-olds are the major contributors to the negative spillover effects of alcohol consumption, so all are denied the right to purchase alcohol.</li> <li>But there may be many 18–19-year-olds who consume alcohol in a sensible manner, and they are unfairly denied the right to purchase alcohol from bottle stores/outlets.</li> <li>Many 20+ year olds cause externalities too.</li> </ul>		Provides some rationale to explain why the policy is unfair	
A2*	(f) (i)	See rectangle in graph in (c), above (ie height = gap between MB and SMB at Q2 / width = 0 to Q2).	Correctly shaded area		
A2 or M2*	(f) (ii)	Efficiency increases because <ul style="list-style-type: none"> <li>A sales tax (if set as in (f)(i)) would reduce the consumption of alcohol (to Q2), due to the higher after-tax price paid by consumers.</li> <li>At Q2 the deadweight loss would be eliminated.</li> <li>Externalities are internalized.</li> </ul>	Describes effect on efficiency and one explanation	Describes the effect on efficiency and two explanations	
E2	<b>Three</b> (e) (i) A2* (e) (ii) M2* (f) (i) A2* (f) (ii) M2*				All FOUR * grades
A2#	<b>Four</b> (a)	Idea of: <ul style="list-style-type: none"> <li>By redistributing income to low-income working families, the government is attempting to achieve a more equitable income distribution.</li> </ul> <p>Don't accept "more equal"</p>	Correct description		
A2#	(b)		Clearly indicates (Must have lines and arrows or labels) an increase in equity and a decrease in efficiency		

Code	Q	Evidence	Achievement	Achievement with Merit	Achievement with Excellence
A2 or M2#	<b>Four</b> (c)	<p><i>Increase in Efficiency</i></p> <p>Ideas of (eg):</p> <ul style="list-style-type: none"> <li>Increasing the income of low-income families with children results in children performing better at school (because (eg) they are healthier).</li> <li>Better education leads to a more skilled workforce and so productivity increases, improving efficiency in New Zealand (as the productive capacity increases).</li> </ul> <p>OR <i>Decrease in Efficiency</i></p> <ul style="list-style-type: none"> <li>With Family Support parents don't work as hard or as long hours</li> <li>Resources are under-utilized, production falls</li> <li>Money spent on package could have been spent on Health, education or infrastructure.</li> </ul>	Describes ONE key point consistent with efficiency prediction	Explanation includes BOTH points consistent with efficiency prediction	
A2 or M2#	(d)	<p>EITHER <i>Increase</i></p> <p>Ideas of (eg):</p> <ul style="list-style-type: none"> <li>Disposable income of families rises. Can be an implied increase.</li> <li>This will result in a more even / more equitable distribution of income, and so equity will be improved.</li> </ul>	Describes ONE key point consistent with equity prediction	Explanation includes BOTH points consistent with equity prediction	
E2	<b>Four</b>	(a) A2# (b) A2# (c) M2# (d) M2#			All FOUR # grades

### Judgement Statement

Achievement	Achievement with Merit	Achievement with Excellence
$1 \times A1$ $1 \times A2$ 5 other A or M           (7/22)	$1 \times M1$ $1 \times M2$ 1 other M $1 \times A1$ $1 \times A2$ 5 other A or M or E           (10/22)	$1 \times E2$ $1 \times M1$ 1 other M $1 \times A1$ $1 \times A2$ 5 other A or M (10/22) <b>OR</b> M1 5 $\times$ other M's $1 \times A1$ $1 \times A2$ 5 other A or M or E (13/22)
<p><b>Note:</b> A1 and M1 relate to the first criterion A2, M2 and E2 relate to the second criterion</p>		